

# Financial Incentives for Adoption of Electronic Health Records - Medicare Fee for Service Payments for Eligible Hospitals

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On January 13, 2010 the United States Department of Health and Human Services issued proposed regulations that provided incentive payments from the Medicare Fee for Service program (FFS) to eligible hospitals for adoption and meaningful use of Certified Electronic Health Record (EHR) technology. Because these regulations are "proposed" they may change. However, since the regulations implement a statutory mandate, it is not expected that the final regulation for Medicare FFS incentive payments to eligible hospitals will be significantly different from the proposed regulations.

An eligible hospital is a "subsection (d) hospital" as that term is defined in the Social Security Act. A subsection (d) hospital is a hospital located in one of the fifty states or the District of Columbia. The term does not include hospitals located in U.S. territories or in Puerto Rico. It also does not include hospitals and hospital units excluded from participation in the inpatient prospective payment system (IPPS) such as psychiatric, rehabilitation, long term care, children's and cancer hospitals.

Eligible hospitals can receive Medicare FFS incentive payments for up to four years if the hospital becomes a meaningful user of Certified EHR technology in fiscal year 2011, 2012 or 2013. "Fiscal year" is the federal government fiscal year which begins in October of the preceding calendar year. For example, Fiscal year 2011 starts on October 1, 2010. The number of years of Medicare FFS incentive payments decrease if the first payment year is 2014 or 2015. No Medicare FFS incentive payments can be received by an eligible hospital if the first payment year is after 2015.

The incentive payment for each payment year is the product of an initial amount multiplied by the Medicare share and an applicable transition factor. The initial amount is:

1. \$2,000,000 for each hospital with 1,149 discharges or fewer during the fiscal year prior to the payment year;
2. \$2,000,000 plus \$200 times the number of discharges during the fiscal year prior to the payment year for hospitals with at least 1,150 discharges but no more than 23,000 discharges;

3. \$6,370,400 for each hospital with more than 23,000 discharges for the fiscal year prior to the payment year.

The Centers for Medicare and Medicaid Services (CMS) will obtain data on hospital discharges, Medicare Part A inpatient-bed-days, Medicare Part C inpatient-bed-days and total inpatient-bed-days from the hospital cost report.

The denominator of the Medicare share fraction will exclude charity care. This means that a hospital with a greater proportion of charity care will receive higher incentive payments.

Hospitals that are not meaningful users of Certified EHR technology will experience reductions to the IPPS market basket update effective in fiscal year 2015 and subsequent years.

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